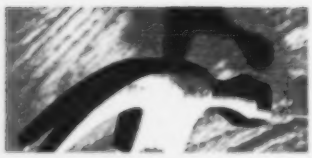
Third Quarter
Fiscal Update

Province of Alberta



06 BUDGET

STRENGTHENING TODAY,
Securing Tomorrow

2006 - 2007 Quarterly Budget Report

February 2007

Alberta

UPDATING ALBERTANS

The *Third Quarter Fiscal Update* consists of two parts – the updated 2006-07 forecast for the entire fiscal year and the actual results for the first nine months of the fiscal year (April 1 to December 31, 2006).

On December 15, 2006, a restructuring of government ministries was announced. This changed the responsibilities of some ministries, created new ministries and eliminated others. The budget and quarterly information has been restated to reflect this new government structure.

TABLE OF CONTENTS

2006-07 FORECAST

Highlights 1
Fiscal Summary 1
Revenue 2
Revenue 3
Expense 4
Expense Summary 5
Expense by Ministry 5
Alberta Sustainability Fund 6
Alberta Sustainability Fund 6
Capital Plan 7
Capital Plan Summary 7
Net Financial and Capital Assets 8
Balance Sheet 8
Capital Account 8
Assets, Liabilities and Net Assets 9
Other Tables
Net Financing Requirements 9
2006-07 Fiscal Year Assumptions 9
Capital Investment and Amortization 10
Capital Grants to Local Authorities and Other Infrastructure Support 10

ACTUAL RESULTS 11
Consolidated Fiscal Summary 12
Expense 13

2008-06050/

2006-07 FORECAST

HIGHLIGHTS

- **Surplus.** Forecast at $7 billion, an increase of $2.9 billion from budget and $1.5 billion from the second quarter forecast.
- **Revenue.** Forecast at $36.6 billion, an increase of $4.2 billion from budget and $1.5 billion from the second quarter forecast. The increase is mainly due to higher income tax revenue and investment income.
- **Expense.** Forecast at $29.7 billion, an increase of $1.3 billion from budget but $40 million lower than the second quarter forecast.

  The increase from budget primarily reflects an $812 million increase in capital grants and $501 million provided for disaster/emergency assistance. Nearly all operating increases have been offset by lapses in other areas.
- **Capital Plan.** 2006-07 capital spending (capital grants and capital investment on government-owned projects) is forecast at $4.8 billion. This is $667 million higher than budgeted but down $228 million from the second quarter forecast.

  The decrease from the second quarter forecast is due to rescheduling of some capital investment to 2007-08.
- **Sustainability Fund.** Allocations include:
  - $2.4 billion for the Heritage Fund, endowments, the Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund.
  - $1.8 billion to the Capital Account for approved future-year capital commitments.

  After these allocations, the Fund is forecast at $7.2 billion, $4.7 billion higher than the minimum target level.

FISCAL SUMMARY[a]

(millions of dollars)

		2006-07			
		Budget	3rd Quarter Forecast	Change from Budget	Change from 2nd Quarter
1	**Revenue**	32,408	**36,639**	4,231	1,502
2	**Expense**				
3	Program	28,067	**29,427**	1,360	(36)
4	Debt servicing costs	245	**231**	(14)	(4)
5	Total Expense	28,312	**29,658**	1,346	(40)
6	**Net Revenue (surplus)**	4,096	**6,981**	2,885	1,542
7	Transfer from Capital Account for capital grants	1,896	**2,508**	612	40
8	Net transfer from (to) Sustainability Fund	(5,692)	**(9,339)**	(3,647)	(1,538)
9	**Contingency Allowance**	300	**150**	(150)	44
10	**Net Amount Available for Allocation from the Sustainability Fund**				
11	Net Revenue	4,096	**6,981**	2,885	1,542
12	Cash from 2005-06 fourth quarter results	-	**1,095**	1,095	-
13	Adjustments [b]	(276)	**860**	1,136	344
14	**Net Amount Available for Allocation**	3,820	**8,936**	5,116	1,886
15	**Allocation**				
16	Capital Account - for approved future-year commitments	-	**1,849**	1,849	308
17	Heritage Fund - $1 billion deposit and inflation-proofing	1,242	**1,202**	(40)	(81)
18	Advanced education endowment (in the Heritage Fund)	-	**250**	250	-
19	Medical Research Endowment Fund	150	**150**	-	-
20	Science and Engineering Research Endowment Fund	-	**100**	100	-
21	Scholarship Fund	20	**20**	-	-
22	Alberta Cancer Prevention Legacy Fund	500	**500**	-	-
23	Energy Innovation Fund	-	**200**	200	-
24	Amount in Sustainability Fund above $2.5 billion at March 31, 2007	1,908	**4,665**	2,757	1,659
25	**Total Allocation**	3,820	**8,936**	5,116	1,886

a Subject to the *Fiscal Responsibility Act*. Does not include changes in equity of Crown-controlled SUCH sector organizations or in pension obligations.

b Adjusts Net Revenue to cash available for allocation from the Sustainability Fund. The third quarter forecast includes the $1,583 billion in the Sustainability Fund above the $2.5 billion minimum balance at the start of year, plus $620 million in cash adjustments, less $651 million in retained income of funds and agencies, less $692 million required for 2006-07 Capital Investment. In the third quarter, adjustments are not reduced for the Contingency Allowance. Further details are provided on page 6.

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at $11.7 billion, up $391 million from budget. Increases in revenue from oil royalties and land sales are mostly offset by lower revenue from natural gas royalties.

Natural gas royalties are forecast at $5.6 billion, $1.6 billion lower than budgeted but $120 million higher than second quarter. Natural gas prices are forecast to average Cdn$5.95 per gigajoule for the fiscal year, 20 cents higher than second quarter, but Cdn$1.55 lower than budget. Prices have been lower than budgeted primarily due to near-record storage inventories in the United States.

Total **oil royalties** are forecast at almost $3.8 billion, $1.1 billion higher than budgeted but $171 million less than second quarter. This includes $2.4 billion in synthetic crude oil and bitumen royalties and $1.4 billion in crude oil royalties. Oil sands royalties have decreased from second quarter due to higher costs and lower production forecasts.

Oil prices are forecast to average US$64.00 per barrel for the fiscal year, $14.00 higher than estimated in the budget, but 67 cents lower than the second quarter forecast.

Revenue from **bonuses and sales of Crown leases** is forecast at $2.4 billion, $955 million higher than budgeted and $251 million higher than the second quarter forecast. The increase is due to higher-than-expected oil sands lease sales.

The **Alberta Royalty Tax Credit** (ARTC) program has been eliminated, effective January 1, 2007. ARTC payments are forecast at $183 million, $81 million higher than budgeted and $18 million higher than the second quarter forecast. The increase reflects an accrual for 2006 claims that would have been reported in 2007-08.

The *Fiscal Responsibility Act* requires non-renewable resource revenue above $5.3 billion to be transferred to the Sustainability Fund. This transfer is now forecast at $6.4 billion.

TAX REVENUE

Personal income tax revenue is forecast at $7.4 billion, up $1.4 billion from budget and $26 million from the second quarter forecast.

The increase primarily reflects updated assessment data for the 2005 tax year. The updated assessment has resulted in a positive prior years' adjustment of $595 million and a higher forecast base for 2006-07. Stronger personal income growth has also increased the current-year forecast.

Corporate income tax revenue is forecast at almost $3.4 billion, $1.1 billion higher than budgeted and $570 million higher than second quarter. The increase is due to stronger corporate profits and economic growth.

Other tax revenue is forecast at $3.4 billion, $74 million higher than budgeted and $34 million higher than second quarter. The increase from budget is due to tobacco, fuel and insurance taxes and the tourism levy, partly offset by a decrease in freehold mineral rights tax revenue.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast at $3.2 billion, $213 million lower than budgeted and $31 million lower than second quarter.

Health transfers and the Canada Social Transfer are $376 million lower than budgeted. This reflects the impact of higher provincial income tax revenue on cash transfers.

Other transfers are a net $163 million higher than budgeted. Increased federal transfers for public transit, housing and post-secondary infrastructure, are partly offset by lower federal agriculture transfers.

INVESTMENT INCOME

Investment income is forecast at $2.9 billion, up $1.1 billion from budget and $662 million higher than second quarter. Heritage Fund and endowment fund income is up $839 million from budget because stronger-than-expected equity markets have produced higher realized capital gains. Other investment income is $293 million higher than budgeted mainly because of higher asset balances.

OTHER REVENUE

Total other revenue is forecast at $4.6 billion, up $301 million from budget and $47 million from the second quarter forecast. The changes from budget include:

- $193 million increase in gaming and liquor revenue due mainly to higher volumes from population growth;
- $63 million increase in Alberta Treasury Branches net income;
- $37 million decrease in timber rentals and fees due to lower prices and a higher exchange rate;
- $82 million net increase in other revenue.

REVENUE

(millions of dollars)

	2006-07				
	Budget	3rd Quarter Forecast	Change from Budget	Change from 2nd Quarter	Main Reasons for Change from Budget
Income Taxes					
Personal income tax	5,999	**7,402**	1,403	26	Higher 2005 assessments/income growth
Corporate income tax	2,227	**3,370**	1,143	570	Stronger corporate profits/economic outlook
	8,226	**10,772**	2,546	596	
Other Taxes					
School property tax	1,306	**1,306**	-	-	
Tobacco tax	740	**780**	40	20	Higher volumes
Fuel tax	643	**700**	57	-	Stronger economic and population growth
Freehold mineral rights tax	386	**315**	(71)	6	Lower natural gas price/well productivity
Insurance taxes	195	**229**	34	2	Growth in premiums and the economy
Tourism levy	50	**64**	14	6	Increased hotel stays/room rates
	3,320	**3,394**	74	34	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	7,146	**5,555**	(1,591)	120	Lower natural gas price
Crude oil royalty	954	**1,360**	406	30	Higher oil price
Synthetic crude oil and bitumen royalty	1,716	**2,394**	678	(201)	Higher oil price
Coal royalty	11	**16**	5	(1)	Increased production
Bonuses and sales of Crown leases	1,479	**2,434**	955	251	Higher oil sands lease sales
Rentals and fees	150	**169**	19	13	Increased mineral mining activity
Royalty tax credit	(102)	**(183)**	(81)	(18)	Year-end accrual
	11,354	**11,745**	391	194	
Transfers from Government of Canada					
Health transfers	1,888	**1,659**	(229)	21	Higher income tax revenue
Canada Social Transfer	678	**531**	(147)	14	Higher income tax revenue
Agriculture support programs	303	**226**	(77)	(82)	Cost-shared CAIS indemnity payments
Other	529	**769**	240	16	Transfers for infrastructure
	3,398	**3,185**	(213)	(31)	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,300	**1,458**	158	35	Higher VLT activity/population growth
Liquor revenue	571	**606**	35	5	Higher volumes/population growth
Alberta Treasury Branches	217	**280**	63	24	Reduced loan losses/higher interest income
Other	6	**6**	-	-	
	2,094	**2,350**	256	64	
Investment Income					
Alberta Heritage Savings Trust Fund	874	**1,566**	692	449	Stronger-than-expected equity markets
Endowment Funds:					
Medical Research	61	**136**	75	50	Stronger-than-expected equity markets
Science and Engineering Research	31	**74**	43	31	Stronger-than-expected equity markets
Scholarship	27	**56**	29	20	Stronger-than-expected equity markets
Alberta Capital Finance Authority	275	**293**	18	18	More borrowing by local authorities
Agriculture Financial Services Corporation	86	**95**	9	1	Higher fund balances
Sustainability Fund	125	**205**	80	20	Higher asset balance
Debt Retirement Account	89	**95**	6	-	Higher interest rates
Capital Account	135	**190**	55	20	Higher asset balance
Other	64	**189**	125	53	Higher asset balances
	1,767	**2,899**	1,132	662	
Premiums, Fees and Licences					
Health care insurance premiums	882	**912**	30	6	Increase in registrants
Motor vehicle licences	305	**328**	23	4	Higher commercial vehicle registrations
Crop and hail insurance premiums	124	**133**	9	3	Higher participation rate
Timber rentals and fees	81	**44**	(37)	1	Lower prices/higher exchange rate
Land titles	54	**66**	12	2	Stronger real estate market
Other	306	**321**	15	3	Revised forecast
	1,752	**1,804**	52	19	
Other					
Refunds of expense	97	**92**	(5)	(6)	Revised forecast
Fines and penalties	78	**85**	7	2	Volume increase
Miscellaneous	322	**313**	(9)	(32)	Various changes
	497	**490**	(7)	(36)	
Total Revenue	32,408	**36,639**	4,231	1,502	

EXPENSE

TOTAL EXPENSE

Total expense is $1.3 billion higher than the budget estimate, but $40 million lower than the second quarter forecast. Changes from budget include:

- $812 million in increased capital grants.
- $501 million in disaster/emergency assistance provided from the Sustainability Fund.
- $32 million decrease for lower natural gas rebates from the Sustainability Fund.
- $122 million net increase in operating expense.
- $57 million decrease in capital amortization, nominal sum disposals and debt servicing costs.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – Total assistance of $501 million, down $16 million from the second quarter forecast. Assistance includes $261 million for agriculture, $201 million for forest fire-fighting costs, $35 million for survey and control of mountain pine beetle infestations and $4 million for flood disasters.

Natural Gas Rebates – $330 million in rebates are forecast to be paid, a $32 million decrease from budget. The forecast is based on no rebates in October, rebates of $1.50 per gigajoule in the four months November to February, and assumed rebates of $2.50 per gigajoule in March.

CAPITAL GRANTS / CAPITAL ACCOUNT

$3.5 billion in capital grants have been provided in 2006-07. This is an increase of $812 million from budget, and $40 million from the second quarter forecast. This increase is funded from the Capital Account and in-year federal transfers.

FUNDING FROM THE CONTINGENCY ALLOWANCE

$300 million was set aside in the budget for in-year, non-emergency operating spending initiatives. $150 million of the Contingency Allowance has been used. The remaining $150 million has been transferred to the Sustainability Fund.

MINISTRY EXPENSE CHANGES

Advanced Education and Technology – $148 million net increase. This includes a $118 million increase in capital grants for cost escalation and project funding; $67 million for post-secondary operating increases and $24 million for science and research initiatives. Partly offsetting these increases is $61 million in lapses primarily related to various student assistance programs and education savings grants.

Agriculture and Food – $65 million net increase. This includes $261 million for agriculture disaster funding, $70 million for the Alberta Reference Margin Initiative and $29 million in capital grants. These increases are partly offset by decreases of $159 million in insurance costs, $115 million in farm income support, $17 million in feed ban funding re-profiled to future years, and a net $4 million in other areas.

Education – $290 million net increase. This includes a $241 million increase in capital grants, a $53 million increase in operating support to schools, partly offset by a net $4 million decrease in other areas.

Finance – $49 million net increase. This includes a $40 million payment toward the government's share of Management Employee Pension Plan unfunded obligation and a $13 million increase in lending by the Alberta Capital Finance Authority. Increases are partly offset by a net $4 million decrease in other areas.

Health and Wellness – $404 million net increase. This includes $150 million for medical equipment, $147 million for physician services, $81 million for health authority operations, $31 million for auxiliary nursing salary adjustments, partly offset by a net decrease of $5 million in other programs.

Infrastructure and Transportation – $162 million net increase. Increases include $167 million in municipal support (including capital grants for public transit and *Water for Life* regional water systems), and $76 million for provincial highway rehabilitation and cost escalation of capital projects. Offsetting decreases include $32 million in natural gas rebates, $25 million in capital for emergent projects, re-profiled to 2007-08, $17 million in amortization and a net $7 million in other areas.

Municipal Affairs and Housing – $63 million net increase. This includes $31 million in housing capital grants, $15 million in other capital grants, $16 million for a homelessness initiative, $7 million related to flood disasters in 2005 and 2006 and $2 million for the rent supplement program. The increases are partly offset by $8 million in various lapses.

Sustainable Resource Development – $236 million increase from budget for the costs of fighting forest fires and mountain pine beetle infestations.

Other Ministries – A $57 million net decrease. Lapses in various programs are partly offset by increases for water and waste management, groundwater mapping and energy-related research.

EXPENSE SUMMARY

(millions of dollars)

	2006-07			
	Budget	3rd Quarter Forecast	Change from Budget	Change from 2nd Quarter
Program Expense				
Operating expense [a]	24,468	**24,590**	122	(129)
Capital grants [b]	2,662	**3,474**	812	40
Disaster/emergency assistance	-	**501**	501	(16)
Natural gas rebates	362	**330**	(32)	77
Capital amortization and nominal sum disposals	575	**532**	(43)	(8)
Total Program Expense	28,067	**29,427**	1,360	(36)
Debt Servicing Costs	245	**231**	(14)	(4)
Total Expense	28,312	**29,658**	1,346	(40)

a The $122 million net increase in operating expense includes a $96 million decrease in dedicated revenue/expense. Under the *Fiscal Responsibility Act*, the lapse in dedicated expense can not be used for operating increases. Operating increases are funded from the Contingency Allowance ($150 million), lapses in capital amortization/nominal sum disposals ($43 million) and a lapse in budgeted capital grants ($25 million).

The $96 million net decrease in dedicated revenue/expense includes Agriculture and Food: $68.4 million net decrease largely for CAIS costs; Finance: $13.5 million increase for Alberta Capital Finance Authority activity; Tourism, Parks, Recreation and Culture: $33.1 million decrease mainly due to delays in racing entertainment centre expansion and First Nations Casinos; and a net $8 million in other increases.

b $812 million net increase in capital grants: $612 million funded from the Capital Account, $225 million funded from federal transfers and a $25 million lapse in budgeted capital grants.

EXPENSE BY MINISTRY

(millions of dollars)

	2006-07				
	Budget	3rd Quarter Forecast	Change from Budget	Change from 2nd Quarter	Main Reasons for Change from Budget
Program					
Legislative Assembly	75	**72**	(3)	(3)	Lapsed spending
Advanced Education and Technology [a]	2,382	**2,530**	148	(2)	Capital grants
Agriculture and Food	993	**1,058**	65	(199)	Disaster funding net of other lapses
Children's Services [a]	918	**904**	(14)	(8)	Delayed uptake in child care initiatives
Education [a]	5,134	**5,424**	290	(5)	School capital and operating support
Employment, Immigration and Industry	897	**887**	(10)	(7)	Lower CASS program demand
Energy	219	**227**	8	(1)	Biofuels/EUB operations
Environment	143	**155**	12	-	Water and waste management grants
Executive Council	22	**22**	-	-	
Finance	593	**642**	49	56	MEPP payment/increased ACFA lending
Health and Wellness [a]	10,318	**10,722**	404	142	RHA grants/physician payments
Infrastructure and Transportation [a]	2,522	**2,684**	162	74	Increased capital support
International, Intergovernmental and Aboriginal Relations	66	**67**	1	-	Legal costs
Justice	348	**352**	4	-	Justices of the Peace compensation
Municipal Affairs and Housing [a]	353	**416**	63	-	Capital grants/homelessness initiative
Seniors and Community Supports [a]	1,635	**1,606**	(29)	(32)	Lower costs in various programs
Service Alberta	270	**267**	(3)	(9)	Lower amortization expense
Solicitor General and Public Security	453	**457**	4	1	Edmonton Remand Centre
Sustainable Resource Development	238	**474**	236	(13)	Wildfires/mountain pine beetles
Tourism, Parks, Recreation and Culture	480	**454**	(26)	(29)	Racing centres/First Nations' casinos
Treasury Board	8	**7**	(1)	(1)	Lower staffing
Total Program Expense	28,067	**29,427**	1,360	(36)	
Debt Servicing Costs	245	**231**	(14)	(4)	Lower long-term interest rates
Total Expense	28,312	**29,658**	1,346	(40)	

a Budget and second quarter numbers have been restated to reflect transfers for 'capital for emergent projects' from Infrastructure and Transportation to other ministries totalling $21.4 million.

ALBERTA SUSTAINABILITY FUND

TRANSFERS

The *Fiscal Responsibility Act* requires non-renewable resource revenue in excess of $5.3 billion to be transferred to the Sustainability Fund. In addition, increases in other revenue, less certain adjustments, are also transferred to the Fund.

Withdrawals from the Fund include $831 million for emergency and disaster assistance and payment of natural gas rebates.

Assets of the Fund above $2.5 billion can also be allocated to other balance sheet improvements, including the Capital Account.

In 2006-07, $3.2 billion has been transferred to the Capital Account for current-year spending, leaving $8.9 billion available for allocation in 2006-07.

ALLOCATION OF AVAILABLE ASSETS

Of the total assets available for allocation in 2006-07, $4.2 billion has been allocated as follows:

- Capital Account – $1.8 billion for approved future-year capital commitments.
- Heritage Fund and other endowments – $1.7 billion.
- Other Funds – the Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund received $500 million and $200 million, respectively.

$4.7 billion has been retained in the Sustainability Fund, resulting in total assets forecast at $7.2 billion at March 31, 2007.

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2006-07			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Assets at Start of Year	4,083	**4,083**	-	-
Transfers into the Sustainability Fund				
Cash transferred from 2005-06 fourth quarter results [a]	-	**1,095**	1,095	-
Non-renewable resource revenue transfer from general revenue	6,054	**6,445**	391	194
Other net transfers	-	**3,875**	3,875	1,555
Adjustments				
Energy and other cash adjustments [b]	(464)	**620**	1,084	281
Retained income of funds and agencies [c]	(282)	**(651)**	(369)	(275)
Withdrawals for disaster/emergency/natural gas rebates	(362)	**(831)**	(469)	(61)
Net Transfers	4,946	**10,553**	5,607	1,694
Total Assets after Net Transfers	9,029	**14,636**	5,607	1,694
Minimum assets required in Sustainability Fund	(2,500)	**(2,500)**	-	-
Transfer of assets to Capital Account for current-year use	(2,709)	**(3,200)**	(491)	192
Assets Available for Allocation	3,820	**8,936**	5,116	1,886
Allocations				
Capital Account - for approved future-year commitments	-	**1,849**	1,849	308
Heritage Fund - deposit	1,000	**1,000**	-	-
Heritage Fund - inflation-proofing	242	**202**	(40)	(81)
Advanced education endowment (in the Heritage Fund)	-	**250**	250	-
Medical Research Endowment Fund	150	**150**	-	-
Science and Engineering Research Endowment Fund	-	**100**	100	-
Scholarship Fund	20	**20**	-	-
Alberta Cancer Prevention Legacy Fund	500	**500**	-	-
Energy Innovation Fund	-	**200**	200	-
Remaining Sustainability Fund assets above $2.5 billion at end of year	1,908	**4,665**	2,757	1,659
Total Allocations	3,820	**8,936**	5,116	1,886
Total Sustainability Fund assets at March 31, 2007	4,408	**7,165**	2,757	1,659

a The cash from the higher-than-forecast 2005-06 fourth quarter results was transferred into the Sustainability Fund in 2006-07.

b Due primarily to cash adjustments for natural gas royalties.

c Due primarily to retained income of Alberta Treasury Branches, Agriculture Financial Services Corporation and endowment funds. This is partly offset by withdrawals from the Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund.

CAPITAL PLAN

2006-07 capital spending, including capital grants to local authorities and capital investment in provincial government-owned projects, is forecast at $4.8 billion, an increase of $667 million from budget but $228 million less than the second quarter forecast. $225 million of the increase from budget is a result of in-year federal transfers:

- **Municipal Infrastructure Support** – Total allocation of $1.2 billion, a $149 million increase from budget. This includes $131 million for public transit, $13 million for petroleum storage tank site remediation and $5 million for other purposes.
- **Provincial Highway Network** – Total allocation of $1 billion, $92 million less than budget and $117 million less than the second quarter forecast. The decrease is mainly due to rescheduling of projects. Funding has been re-profiled to 2007-08.
- **Health Facilities and Equipment** – Total allocation of $888 million, a $136 million increase from budget but $14 million less than second quarter. An increase of $150 million for diagnostic and medical equipment has been partially offset by $14 million in lapses, including $10 million re-profiled to 2007-08 for health information system development.
- **Schools** – Total allocation of $578 million, a $232 million increase from budget for school maintenance and renewal, cost escalation of approved projects, modular classrooms, and new schools and preservation projects.
- **Post-secondary Facilities** – Total allocation of $400 million, a $118 million increase from budget for cost escalation of approved projects, the federal transfer for post-secondary facilities, and the University of Calgary's Child Development Centre.
- **Community Facilities and Centennial Projects** – Total allocation of $139 million, a $17 million increase from budget but $9 million less than the second quarter forecast. The increase from budget reflects the carry-over of 2005-06 unfinished projects.
- **Water and Wastewater Management** – Total allocation of $152 million, a $62 million increase from budget for regional water systems projects and the advancing of irrigation rehabilitation grants into 2006-07.
- **Government Facilities, Housing and Equipment** – Total allocation of $505 million, a $159 million increase from budget but $39 million less than the second quarter forecast. Increases are largely for federal transfers relating to housing, a provincial-wide policing information system and cost escalation of approved projects. Funding for the acquisition of the Glenbow Ranch property for a new provincial park has been re-profiled to 2007-08.
- **Capital for Emergent Projects** – Total allocation of $15 million, $114 million lower than budgeted. Funding has been re-profiled to 2007-08.

CAPITAL PLAN SUMMARY

(millions of dollars)

		2006-07		
		3rd Quarter	Change from	2nd
	Budget [a]	Forecast	Budget	Quarter
Municipal infrastructure support	1,021	**1,170**	149	-
Provincial highway network	1,093	**1,001**	(92)	(117)
Health facilities and equipment	752	**888**	136	(14)
Schools	346	**578**	232	-
Post-secondary facilities	282	**400**	118	-
Community facilities and centennial projects	122	**139**	17	(9)
Water and wastewater management	90	**152**	62	17
Government facilities, housing and equipment	346	**505**	159	(39)
Capital for emergent projects	129	**15**	(114)	(66)
Total Capital Plan	4,181	**4,848**	667	(228)
To be funded by				
Current-year revenue	1,324	**1,500**	176	(36)
Capital Account	2,709	**3,200**	491	(192)
Alternative financing including P3s	148	**148**	-	-
Total Capital Plan	4,181	**4,848**	667	(228)

a Budget and second quarter numbers have been restated to reflect transfers from 'capital for emergent projects' to other functions totalling $43 million ($21.4 million relates to transfers to other ministries and $22 million relates to transfers to other programs within Infrastructure and Transportation).

NET FINANCIAL AND CAPITAL ASSETS

- **Net Assets** – Net assets at March 31, 2007 are forecast at $41.3 billion. This includes capital assets of $12.4 billion.
- **Capital Account** – Capital Account assets are forecast at $6.1 billion, an increase of $1.8 billion from March 31, 2006, reflecting funding set aside for approved future-year capital commitments.
- **Accumulated Debt/Debt Retirement Account** – Sufficient funds have been set aside in the Debt Retirement Account to pay off remaining accumulated debt as it matures.
- **Heritage Fund** – The book value of Heritage Fund external assets is forecast at $14.9 billion, an increase of $1.5 billion from March 31, 2006. This includes a $250 million deposit for the advanced education endowment. The forecast of the inflation-proofing requirement has been lowered to $202 million.
- **Endowments and Other Funds** – Total assets are forecast at $3.4 billion at March 31, 2007, an increase of $1.1 billion from March 31, 2006. The increase primarily reflects allocations to endowments and the establishment of two new funds in 2006-07.

BALANCE SHEET

AT MARCH 31

(millions of dollars)	2006	2007			
			3rd Quarter	Change from	2006
	Actual	Budget[a]	Forecast	Budget	Actual
Financial Assets					
Heritage Fund external investments	*13,414*	14,737	**14,948**	211	1,534
Self-supporting lending organizations	*6,617*	7,007	**6,966**	(41)	349
Alberta Sustainability Fund	*4,083*	4,408	**7,165**	2,757	3,082
Endowment funds [b]	*2,327*	2,996	**3,426**	430	1,099
Capital Account	*4,243*	4,243	**6,092**	1,849	1,849
Debt Retirement Account	*2,197*	2,024	**2,035**	11	(162)
Other financial assets	*8,905*	9,852	**7,443**	(2,409)	(1,462)
Total Financial Assets	*41,786*	45,267	**48,075**	2,808	6,289
Liabilities					
Accumulated debt	*2,195*	2,022	**2,030**	8	(165)
Pension obligations	*5,435*	5,582	**5,595**	13	160
Self-supporting lending organizations [c]	*5,298*	5,562	**5,403**	(159)	105
Other liabilities	*5,975*	6,230	**6,185**	(45)	210
Total Liabilities	*18,903*	19,396	**19,213**	(183)	310
Net Financial Assets	*22,883*	25,871	**28,862**	2,991	5,979
Capital assets and inventories of supplies	*11,552*	12,513	**12,394**	(119)	842
Net Assets	*34,435*	38,384	**41,256**	2,872	6,821
Adjustment for pension obligations	*5,435*	5,582	**5,595**	13	160
Net Assets for Fiscal Policy Purposes [d]	*39,870*	43,966	**46,851**	2,885	6,981

a Budget numbers have been restated to reflect 2005-06 actual results.

b Includes the Medical Research Endowment Fund, Science and Engineering Research Endowment Fund, Scholarship Fund, Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund.

c Excludes $942 million borrowed from the General Revenue Fund by self-supporting lending organizations reported in other liabilities.

d Under the *Fiscal Responsibility Act*. Excludes pension obligations and change in equity of Crown-controlled SUCH sector organizations.

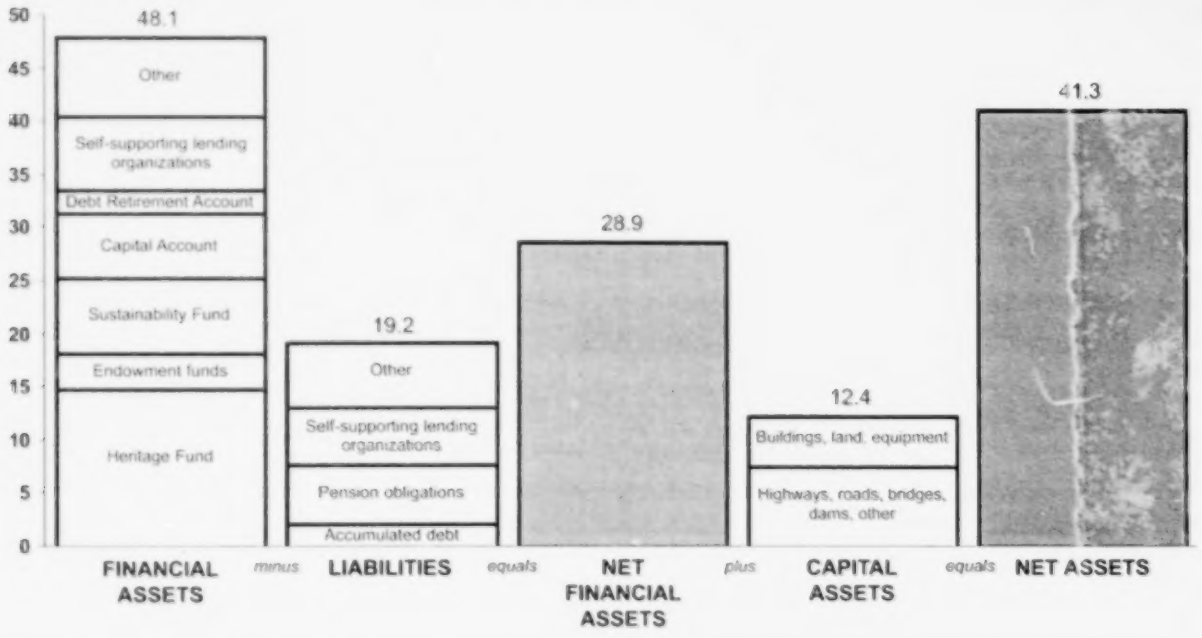
CAPITAL ACCOUNT

(millions of dollars)	2005-06	2006-07			
			3rd Quarter	Change from	2005-06
	Actual	Budget	Forecast	Budget	Actual
Assets at Start of Year	*674*	4,243	**4,243**	-	3,569
Allocations from Sustainability Fund	*5,858*	2,709	**5,049**	2,340	(809)
Withdrawals					
Capital grants to local authorities	*(1,795)*	(1,896)	**(2,508)**	(612)	(713)
Government-owned capital investment	*(494)*	(813)	**(692)**	121	(198)
Assets at End of Year	*4,243*	4,243	**6,092**	1,849	1,849

ASSETS, LIABILITIES AND NET ASSETS

AT MARCH 31, 2007

(billions of dollars)



NET FINANCING REQUIREMENTS

(millions of dollars)

	2006-07			
		3rd Quarter	Change from	
	Budget	Forecast	Budget	2nd Quarter
Requirements:				
General Revenue Fund term debt maturities	-	-	-	-
School construction loan repayments	65	**65**	-	-
Alberta Social Housing Corporation debt repayment [a]	108	**100**	(8)	-
Accumulated debt financing requirements	173	**165**	(8)	-
Agriculture Financial Services Corporation's term borrowing requirements	200	**177**	(23)	(20)
Gross financing requirements	373	**342**	(31)	(20)
Cash applied to accumulated debt repayment [b]	(173)	**(165)**	8	-
Net Term Debt Financing Requirements	200	**177**	(23)	(20)
Term debt financing completed to date	-	**70**	70	-

a $8 million of budgeted debt repayment took place in 2005-06.

b Accumulated debt maturities paid from the Debt Retirement Account.

2006-07 FISCAL YEAR ASSUMPTIONS

	Sensitivities		Assumptions			
	Annual Change	Net Change [a] ($ millions)	Budget	1st Quarter Forecast	2nd Quarter Forecast	3rd Quarter Forecast
Oil Price (WTI US$/bbl)	-$1.00	-123	50.00	63.50	64.67	64.00
Natural Gas Price (Cdn$/GJ)	-10¢	-104	7.50	6.50	5.75	5.95
Exchange Rate (US¢/Cdn$)	+1¢	-172	85.80	88.65	88.70	87.90
Interest Rates:	+1%	-205				
3-month Canada treasury bills			3.95	4.35	4.15	4.10
10-year Canada bonds			4.95	4.65	4.15	4.15

a Sensitivities based on prices and rates forecast at budget.

CAPITAL INVESTMENT AND AMORTIZATION[a]

(millions of dollars)

	2006-07 Capital Investment				2006-07 Capital Amortization			
	Budget	3rd Quarter Forecast	Change from Budget	Change from 2nd Quarter	Budget	3rd Quarter Forecast	Change from Budget	Change from 2nd Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Advanced Education and Technology	10	**11**	1	1	7	**7**	-	-
Agriculture and Food	10	**16**	6	3	10	**11**	1	-
Children's Services	4	**4**	-	-	1	**1**	-	-
Education	4	**2**	(2)	-	1	**2**	1	1
Employment, Immigration and Industry	4	**9**	5	5	3	**3**	-	-
Energy	18	**18**	-	-	16	**15**	(1)	(1)
Environment	3	**3**	-	-	20	**20**	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	6	**7**	1	1	7	**7**	-	-
Health and Wellness	76	**62**	(14)	(14)	47	**47**	-	-
Infrastructure and Transportation	1,278	**1,105**	(173)	(264)	313	**296**	(17)	-
International, Intergovernmental and Aboriginal Relations	-	-	-	-	-	-	-	-
Justice	22	**19**	(3)	(1)	3	**3**	-	-
Municipal Affairs and Housing	1	**1**	-	-	26	**26**	-	-
Seniors and Community Supports	1	**1**	-	-	1	**1**	-	-
Service Alberta	17	**26**	9	-	39	**31**	(8)	(6)
Solicitor General and Public Security	-	**11**	11	-	1	**1**	-	-
Sustainable Resource Development	39	**41**	2	-	11	**11**	-	-
Tourism, Parks, Recreation and Culture	26	**38**	12	1	12	**10**	(2)	(2)
Treasury Board	-	-	-	-	-	-	-	-
Total Capital Investment/Amortization	1,519	**1,374**	(145)	(268)	518	**492**	(26)	(8)
Funded from the Capital Account	813	**692**	(121)	(232)	-	-	-	-
Alternatively financed	148	**148**	-	-	-	-	-	-

a Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventories.

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT[a]

(millions of dollars)

	2006-07			
	Budget	3rd Quarter Forecast	Change from Budget	Change from 2nd Quarter
Advanced Education and Technology [b]	278	**396**	118	-
Agriculture and Food	29	**60**	31	25
Education [b]	346	**578**	232	-
Environment	1	**8**	7	-
Finance	4	**4**	-	-
Health and Wellness [b]	676	**826**	150	-
Infrastructure and Transportation [b]	1,169	**1,386**	217	15
Municipal Affairs and Housing [b]	53	**95**	42	-
Seniors and Community Supports [b]	25	**40**	15	-
Tourism, Parks, Recreation and Culture	81	**81**	-	-
Total	2,662	**3,474**	812	40
Funded from the Capital Account	1,896	**2,508**	612	40

a Included in program expense. Includes provincial highway planning and rehabilitation.

b Budget and second quarter numbers have been restated to reflect transfers for 'capital for emergent projects' from Infrastructure and Transportation to other ministries totalling $21.4 million.

ACTUAL RESULTS

FOR THE FIRST NINE MONTHS OF 2006-07

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2006*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to these entities.

The accounts of Crown-controlled SUCH sector organizations such as schools, universities, colleges, technical institutes, regional health authorities and health boards that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are included in the consolidated financial statements forming part of the Government of Alberta Annual Report.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Revenue excludes the change in equity in Crown-controlled SUCH sector organizations.

Expense includes the province's cash payments towards the unfunded pension obligations. Expense excludes the change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

COMPARATIVE FIGURES

As a result of government restructuring announced on December 15, 2006, the responsibilities of certain ministries changed and new ministries were formed. This financial summary is prepared on the basis as if the ministries had always been assigned their current responsibilities.

Comparative 2005-06 figures have been restated where necessary to conform to the 2006-07 presentation.

CONSOLIDATED FISCAL SUMMARY[a]

for the nine months ended December 31, 2006

(millions of dollars)

	First Nine Months		
	2006-07	2005-06	Change
Revenue			
Income taxes	7,858	6,320	1,538
Other taxes	2,593	2,493	100
Non-renewable resource revenue	9,343	10,297	(954)
Transfers from Government of Canada	2,642	2,702	(60)
Investment income	2,187	1,579	608
Net income from commercial operations	1,930	1,651	279
Premiums, fees and licences	1,415	1,358	57
Other	329	343	(14)
Total Revenue	28,297	26,743	1,554
Expense			
Program	20,191	18,546	1,645
Debt servicing costs	163	194	(31)
Total Expense	20,354	18,740	1,614
Net Revenue	7,943	8,003	(60)

a Includes the province's cash payments towards the unfunded pension liability, which will be eliminated over a longer term under a separate legislated plan. Does not include the change in equity in Crown-controlled SUCH sector organizations, and the change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

EXPENSE

for the nine months ended December 31, 2006

(millions of dollars)

	First Nine Months		
	2006-07	2005-06	Change
Program			
Legislative Assembly	48	46	2
Advanced Education and Technology	1,619	1,340	279
Agriculture and Food	882	875	7
Children's Services	645	576	69
Education	3,725	3,548	177
Employment, Immigration and Industry	663	555	108
Energy	140	128	12
Environment	100	95	5
Executive Council	14	14	-
Finance	430	406	24
Health and Wellness	7,439	6,617	822
Infrastructure and Transportation	1,677	1,802	(125)
International, Intergovernmental and Aboriginal Relations	46	42	4
Justice	237	213	24
Municipal Affairs and Housing	214	253	(39)
Seniors and Community Supports	1,138	1,055	83
Service Alberta	163	152	11
Solicitor General and Public Security	330	292	38
Sustainable Resource Development	366	235	131
Tourism, Parks, Recreation and Culture	311	298	13
Treasury Board	4	4	-
Total Program Expense	20,191	18,546	1,645
Debt Servicing Costs	163	194	(31)
Total Expense	20,354	18,740	1,614

Alberta
Finance